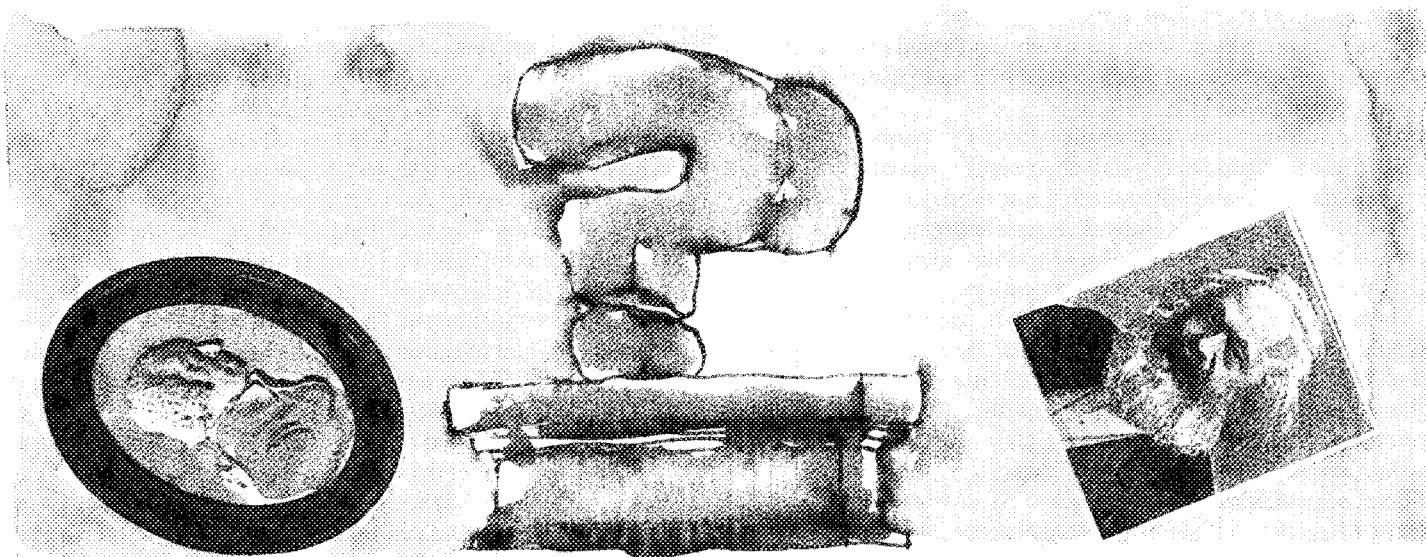


## The NS essay



# The time is ripe for the Third Man

Forget Marx and Smith. Friedrich List is the economist for us. By **Michael Lind**

**T**he deepening global economic crisis – which has now spread from Asia to Russia and may hit Latin America next – has exposed the poverty of the laissez-faire economic approach that the United States has been urging on the rest of the world. The liberalisation of financial markets worldwide has benefited international speculators while crippling the power of governments either in the developed countries or the developing world to promote the long-term interests of their producers and consumers.

Unfortunately, while the economic meltdown of the emerging markets has discredited laissez-faire, it has also shown up the bankruptcy of the conventional leftist and liberal alternatives. Until now, criticism of free-market orthodoxy from the left has been monopolised by democratic socialists and neoliberals. Neither school offers a convincing alternative model of a modern industrial economy. After almost two centuries, nobody has been able to provide a blueprint of what a functioning democratic socialist industrial economy on a national or global scale would look like.

If democratic socialists are still too close to Karl Marx, neoliberals such as Bill Clinton and Tony Blair have made too many concessions to Adam Smith. Like post-1945 Keynesians, they refuse to challenge the neoclassical economic orthodoxy that makes the state an umpire rather than a participant in a capitalist economy. Instead, neoliberals focus on redistribution by means of a generous safety net and progressive taxation. The neoliberal theory of development, expressed by President Clinton in his remarks in Russia, has been reduced to the assertion that the enforcement of property rights will encourage foreign investment.

Are these the only alternatives to the political economy of the right – an inchoate democratic socialism and a neoliberalism that

offers an echo of free-market globalism, not a choice? It is important to recall that socialism and classic liberalism are only two of the three rival traditions of political economy that emerged in the first half of the 19th century. The three traditions are symbolised by Karl Marx, Adam Smith and Friedrich List – the German-American theorist and activist who developed the insights of the American “national economists” into a systematic theory of industrial capitalist economic nationalism. It was List (1789-1846) who taught the Germans and later the Japanese to follow the 19th-century American example of using tariffs and other industrial policies to promote the industrialisation of their nations. This long-neglected figure had more influence on the development of industrial civilisation in Europe and East Asia than either Marx or Smith.

List was an American citizen, a German patriot and universalist who believed in the ultimate harmony of national interests. He was a liberal and a democrat who admired the United States and Britain and wanted the extension of representative government, civil liberty and the rule of law to accompany industrial evolution.

Friedrich List, like Adam Smith and his followers, was an economic liberal who believed in private property and corporate capitalism. But List contrasted “national” economics with the “cosmopolitan” economics of the English laissez-faire school of Smith and David Ricardo. The doctrine of the Smithian cosmopolitans “is clearly concerned only with individuals and with a universal republic embracing all members of the human race”, List wrote in *The Natural System of Political Economy* (1837). “But this doctrine omits a vital intermediate stage between the individual and the whole world. This is the nation, to which its members are united by the tie of patriotism.” Nations can only move slowly, step by ►

► step, towards the attainment of world free trade. In List's view, the premature adoption of global free trade would permanently lock in the advantages of the countries that had already industrialised (like Britain in the 19th century and the United States today). Developing countries had to protect their infant industries until they caught up. At that point, the newly developed nations should phase out protection and move toward free trade with the already developed nations.

If he were alive today, List would oppose the International Monetary Fund for trying to force all developing countries to adopt an often inappropriate neoliberal economic model. He would disapprove of treaties such as Nafta that deprive poor countries of discretion to shape their development and turn them into low-wage assembly sites for rich-country corporations.

However, List would approve of the European Union, and he would no doubt be an ardent advocate of the economic merger of the United States and Canada with the EU in a Tafta (Transatlantic Free Trade Association), complete with a minimum wage and a social charter. (Japan would make a welcome addition, if it were to liberalise its economy and society.)

The EU-Nafta confederation could dictate terms to the rest of the world. More enlightened leaders in Washington and Brussels could use control over access to the common Atlantic market to pressure dictators and western corporations into providing the workers of the developing world with civil rights, decent wages and safe working conditions. The EU-Nafta free-trade zone would gradually expand from its Atlantic core by admitting new countries that met the criteria of high wage levels and democratic government. Until they are ready to join the high-wage club, developing nations should form their own regional economic blocs, liberalising trade among themselves while collectively bargaining with the rich nations over terms of trade and investment.

As this suggests, Listianism has a theory of the medium-term future, as well as a vision of the long-term future, to justify its programme of short-term reforms. Like Marxist socialism, Listian capitalism unites a rigorous theory of political economy with a theory of historical progress. Unlike Marxist socialist theory, Listian capitalist theory is right about economics and historical progress.

The Listians are not Hegelians, nor do they have a theory of "revolutionary morality" that can be invoked to justify political crimes. Listian liberals may favour revolutions or coups d'état in particular countries in particular circumstances, but they do not believe in revolution. Political violence can never be justified by a theory of long-term historical progress. Listian terrorists and Listian gulags are inconceivable.

Indeed, from a Listian perspective, today's Smithian right is as guilty as the Marxist-Leninist left of justifying present oppression in terms of future progress. The right often claims that developing countries must go through a "sweatshop" or "authoritarian" phase before their workers can be allowed to organise unions or vote in free elections. Listians reject the claim that every developing country must recapitulate the horrors of Dickensian capitalism. Indeed, one of the advantages of late development is the ability of the belated to avoid the mistakes of their predecessors. Why can't

a country go from the agrarian economy to the post-industrial robot/service economy, and skip the sweatshop phase altogether? Should they go through a slave-labour phase as well?

For obvious reasons, Marx saw List's philosophy as a dire threat. If List was right, strong nation states could control the rate and degree of their own entry into the global market. If List was right, strong nation states could also ameliorate class conflict within their borders by means of intelligent social reforms. And if List was right, the dynamics of industrial capitalism would not inevitably eliminate the nation state and produce a global revolution from the bottom up. As it turned out, List was right and Marx was wrong. Hardly anyone on today's left believes that the idea of social reform at the national level is an illusion of "bourgeois nationalists" foolishly hoping to retard the capitalist apocalypse and the socialist millennium. The premise of today's leftist and liberal critique of globalisation is Listian, not Marxist: national governments should be able to regulate the terms on which their

nations engage with the world economy. And the premise of defenders and extenders of the welfare state is also Listian, not Marxist: national programmes of redistribution and promotion of human capital can genuinely increase social equality within the nation state. Today's democratic leftists are really Listians even if they have never heard of Friedrich List.

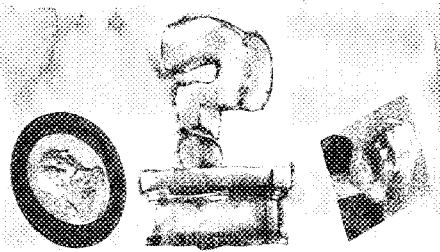
If the 19th century saw a debate among Smithians, Marxists and Listians, and the 20th century a debate between Smithians and Marxists, the 21st century should see a debate between Smithians and Listians — between those who want laissez-faire global capitalism now, and those who envision a social-market version of global capitalism as the remote and negotiated result of generations of differing national and regional paths to devel-

opment. Smithians believe that global market integration will produce national and regional development; Listians believe that global market integration should follow national and regional development. Smithians want a global market by the year 2000 or 2020 at the latest; Listians are willing to postpone it until 2200 or perhaps 3000.

If I am right, centre-left opponents of the Smithian tradition of global laissez-faire capitalism who reject the various denominations of the Church of Marx can find an alternative genealogy in the submerged tradition of Listian nationalist reform capitalism. The centre-left is full of left-Smithians and right-Marxists. After the second world war Keynesian liberals concentrated on redistribution; before the war, however, progressives and liberals were willing to entertain experiments in state capitalism and government allocation of credit. While their answers were sometimes wrong, the questions they asked are more timely than ever, now that both state socialism and laissez-faire capitalism have been discredited by their consequences in poor and rich nations alike.

The centre-left already has a critique of Smithian liberalism. Listian liberalism can provide the centre-left with a programme.

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**Democratic socialists are too close to Marx but neo-liberals like Blair have made too many concessions to Adam Smith**